OFFICIAL FILING
BEFORE THE
PUBLIC SERVICE COMMISSION OF WISCONSIN

Application of Northern States Power Company, a Wisconsin Corporation, for Authority to Adjust Electric and Natural Gas Rates

Docket No. 4220-UR-117

DIRECT TESTIMONY OF DAVID D. DONOVAN

Q. State your name, business address and position.

A. My name is David D. Donovan. My business address is 10 East Doty Street, Suite 511, Madison, WI 53707.

Q. By whom are you employed and in what capacity?

A. I am Manager of Regulatory Policy for Xcel Energy Services Inc. ("XES"), the service company for Xcel Energy Inc. ("Xcel Energy"). XES provides corporate services, including regulatory services, to Xcel Energy and its subsidiaries. I am appearing in this proceeding on behalf of Northern States Power Company, a Wisconsin corporation and wholly owned subsidiary of Xcel Energy ("NSPW" or the "Company").

Q. What is your educational and professional background?

A. I have a Bachelor of Science degree in Biology with a minor in Chemistry from Viterbo University in La Crosse, Wisconsin and a Master of Science degree in Forest Management and Administration from Iowa State University in Ames, Iowa. I have worked for XES (NSPW) for nineteen years in the environmental compliance and regulatory areas. I have lead responsibility for renewable energy issues for NSPW and have worked closely with the Public Service Commission of Wisconsin ("PSCW" or

"Commission") staff and other stakeholders on distributed resources issues including interconnection standards and energy buy-back rates.

Q. Would you state briefly the duties of your present position?

A. My current duties include determining the appropriate policy alternatives and developing recommendations for the Company's regulatory and legislative strategy on issues related to industry structure, economic and environmental regulation, renewable energy development and management, and operational requirements in Wisconsin and Michigan. I work directly with senior management to develop regulatory and legislative policies and strategies that support the Company's strategic goals and objectives, and I consult with legislative, regulatory and subject matter experts throughout the Company and industry to establish progressive and consistent policies/strategies. In addition, I prepare and deliver supporting testimony in regulatory proceedings, administrative rulemakings and legislative hearings as needed.

Q. Have you testified before the Commission in other proceedings involving rates for utility service?

A. Yes, I have.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is threefold. First, I will present the proposed modifications to the existing 'Parallel Generation – Net Energy Billing Service' ("NEB") and 'Parallel Generation - Buy-Back Service' ("PG-2") tariffs. Second, I will explain NSPW's proposal to cancel the Customer Buy Back Program Service tariff. Third, I will present proposed modifications to NSPW's existing experimental renewable energy buy

back tariff also known as the 'Experimental Advanced Renewable Energy Purchase Service Tariff' ("ART").

Q. Are you sponsoring any exhibits in this testimony?

A. Yes, I am. I will be referring to Exhibit 1.14 (DDD-1), which shows the proposed modifications to the existing ART, Pg-1, Pg-1.1, Pg-2 and Pg-3 tariffs and Exhibit 1.15 (DDD-2), which shows the pricing for the modified ART.

Q. Were these exhibits prepared by you or under your direction?

A. Yes.

I. PARALLEL GENERATION – NET ENERGY BILLING SERVICE

Q. Please explain the proposed modifications to the NEB tariff.

A. NSPW proposes to make the following changes to the NEB tariff:

- The tariff will be available to all qualifying renewable energy facilities equal to or less than 100 kW as long as the facility matches the load of the customer owning the generating equipment.
- A customer can own more than one qualifying energy generating facility, but the capacity for all of the generators will be summed and the total can not exceed 100 kW nor can the total generation exceed the total customers load at any one contiguous location.
- All excess generation produced by the customer will be credited to the customer on a monthly basis at the proposed new Pg-2A service rate.
- NSPW will continue to purchase excess generation from customers who have initiated service under the current Pg-1 tariff (NEB) prior to January 1, 2012, and

who have generation with name plate capacity of 20 kW or less until the Commission issues its order in the Company's next general rate case.

- All excess generation will be credited to the customer's account until the customer has a credit balance that exceeds $25. A check will then be issued to the customer.
- Proposed language in the modified NEB tariff explains that the customer retains ownership of all Renewable Energy Credits.
- The Pg-1.1 tariff, for non-renewable generation, will be cancelled and certain attributes will be included in the proposed new Pg-2A tariff described below and by Mr. Marx.

Q. What is the basis for these changes?

A. In both of the recent Wisconsin Public Service Corporation and Madison Gas and Electric rate cases, the PSCW ordered both utilities to increase the availability threshold of each company's NEB tariff to 100 kW. Given this, NSPW chose to take the opportunity to propose additional modifications to its existing NEB tariff that it believes will make the tariff clearer and easier to implement, including the cancellation of the Pg-1.1 tariff. In addition, the modified NEB tariff will provide a financial credit to the customer for the energy generated similar to that of the wholesale energy market while continuing to allow the customer the opportunity to obtain additional financial benefit from the renewable and environmental attributes of the generation. More specific technical information on the NEB is presented in Mr. Marx's testimony.

II. PARALLEL GENERATION – ENERGY PURCHASE SERVICE PG-2A, PG-2B, AND PG-2C

Q. Please explain the modifications proposed to the existing Pg-2 tariff.

A. In addition to the Pg-1.1 tariff, NSPW proposes to cancel its existing Pg-2 tariff and replace them with three Parallel Generation – Energy Purchase Service tariffs, identified as Pg-2A, Pg-2B, and Pg-2C. These three replacement Pg tariffs have different pricing mechanisms for the purchase of electricity from non-NSPW or non-NSP System[1] facilities and will include certain attributes from the Pg-1.1 NEB for non-renewable generating sources. The proposed new services are summarized on sheet E56 of Exhibit 1.14.

The proposed Pg-2A tariff (Parallel Generation – Energy Purchase Service) is available only to customers with generating facilities that are qualifying facilities[2] ("QF") rated at 2,000 kW or less. The Pg-2A tariff has on-peak and off-peak buy-back rates based on the respective on-peak and off-peak historic average locational marginal price ("LMP") for the previous 12 months ending October 31 of each year at the NSP.NSP load zone node. Buy-back rates will be reset annually on January 1 of each year. Using this pricing mechanism allows the Company to provide price certainty to the customer and to offer a per kWh premium to a customer for the renewable credit that will be transferred to the Company and generated from a renewable energy source. The customer will have the option of rejecting the premium offer and retaining ownership of the renewable credit.

[1] NSPW and its affiliate, Northern States Power Company, a Minnesota corporation and wholly owned subsidiary of Xcel Energy, Inc. plan, build and operate a single integrated electric system which is commonly referred to as the "NSP System."

[2] A 'qualifying facility' satisfies all requirements under Part 292 of the Federal Energy Regulatory Commission's regulations under the Public Utility Regulatory Policies Act of 1978 ("PURPA").

The proposed Pg-2B tariff (Parallel Generation – Energy Purchase Service – LMP) is available only to customers with generating facilities that are QFs rated at 5,000 kW or less. Under the Pg-2B tariff, the buy-back rate is based on the day ahead LMP at the NSP.NSP load zone node. Customers with QFs that have generating capacities of 2,000 kW or less will have the option of selling energy to the Company under the Pg-2A or Pg-2B tariff. The Company will have the option of offering a per kWh premium to a customer for the renewable credit that will be transferred to the Company and generated from a renewable energy source. Again, the customer will have the option of rejecting the premium offer and retaining ownership of the renewable credit. Customers will only be allowed to change between the Pg-2A and Pg-2B tariffs on January 1 and upon satisfying a one full calendar year participation requirement.

The proposed Pg-2C tariff (Parallel Generation – Energy Purchase Service – Negotiated) is available only to customers with generating facilities that are QFs rated at 20,000 kW or less. The Pg-2C tariff has a negotiated buy-back rate. Customers with qualifying facilities that have generating capacities of 5,000 kW or less will have the option of selling energy to the Company under the Pg-2C or Pg-2B tariff. The Company will have the option of offering a per kWh premium to a customer for the renewable credit that will be transferred to the Company and generated from a renewable energy source. Once again, the customer will have the option of rejecting the premium offer and retaining ownership of the renewable credit.

All customer owned generation facilities under the NEB, Pg-2A, Pg-2B, and Pg-2C tariffs must adhere to the interconnection rules and guidelines set out in Wis. Admin. Code Ch. PSC 119.

Q. What is the basis for the creation of the Pg-2A, Pg-2B, and Pg-2C tariffs

A. Over the past several months, independent power producers ("IPPs") have approached NSPW requesting enrollment in the existing Pg-2 tariff. In some instances, the IPPs were not customers of NSPW and thus were ineligible to participate in the tariff. In other cases, the generating facility was not interconnected to the NSPW system and the cost to interconnect was prohibitive. In one case, however, a rather large IPP owned a facility that could interconnect to NSPW cost effectively and is technically a NSPW retail customer enrolled in the existing Pg-2 rate[3]. As a result, NSPW is paying a premium price for electricity that it neither needs nor wants. Ultimately this cost will be paid for by our customers.

The existing Pg-2 tariff was not designed for large IPPs. Rather, it was designed to provide our retail customers with an opportunity to sell energy back to NSPW at a fair rate. By developing the Pg-2A, Pg-2B, and Pg-2C tariffs, the Company is better able to target those customers with qualifying generators while eliminating the opportunities of IPPs to capitalize on a system that was not designed for their use. In addition, by creating the Pg-2A, Pg-2B, and Pg-2C tariffs, the Company will minimize rate impacts resulting from large IPPs exploiting the current Pg-2 tariff, while continuing to address the needs of those customers that want to sell energy to NSPW from their QFs. Additional technical information on each of the Pg-2A, Pg-2B, and Pg-2C tariffs can be found in Mr. Marx's testimony.

[3] This IPP has an NSPW distribution meter at the generator location, but monthly energy consumption is negligible. Nevertheless, this facility is a retail customer of NSPW.

Q. How many NSPW customers presently subscribe to the Pg-2 service?

A. The Company has three customers presently on the Pg-2 service. The typical monthly delivery to the Company is about 1,900 MWh. The Company understands business decisions may have been made by some of these customers based on the present Pg-2 service rate structure. In order to assist these customers in their transition to the new buyback services, the Company is willing enter into negotiations for special contracts with these existing customers[4].

Q. Why must all generating facilities subscribing to the Pg-2A, Pg-2B or Pg-2C tariffs be 'qualifying facilities' as defined by PURPA?

A. Requiring all participating generating facilities to be 'qualifying facilities' pursuant to PURPA is a precautionary administrative action. The Company anticipates continued action at the federal level on carbon management initiatives, whether through the U.S. Environmental Protection Agency or through congressional action. As a result of these anticipated actions, NSPW believes it prudent to require all participating generating facilities to be 'qualifying facilities' under PURPA. This requirement will facilitate the use of the generation from these facilities in satisfying potential carbon management requirements regardless of whether the Company purchases these rights or they continue to be held by the generator. Furthermore, the fuel definition for 'qualifying facilities' under PURPA is very similar to the current renewables definition contained in Wisconsin's renewable portfolio standard ("RPS") legislation. Having similar definitions

[4] NSPW has already negotiated a power purchase agreement with one of the customers that is on the current Pg-2 rate.

should help facilitate the administration of the current RPS requirements as well as any future federal carbon management requirements.

Q. Will the 'qualifying facilities' requirement add significant financial or administrative burden to the customers that choose to subscribe to the new Pg-2A, Pg-2B or Pg-2C tariffs?

A. No. According to the Federal Energy Regulatory Commission ("FERC") website, those customers with generating facilities one MW or less and that meet the PURPA requirements can self-certify without notice to any regulatory agency. Those facilities up to 80 MW in size that meet the requirements of PURPA can self-certify by submitting a completed Form No. 556 to FERC. Facilities 1 MW and smaller in size may choose to complete and submit this form, as well. This form is available from the FERC internet webpage (http://www.ferc.gov/default.asp) and can be submitted electronically. We are not aware of any fees that are required to self-certify a small power production facility. All customers that choose to use NSPW's new Pg-2 tariffs will be able to self-certify because of the 20,000 kW (20 MW) cap on participating facilities. In addition, these customers should be able to self-certify using the electronic forms with little to no administrative or financial burden.

Q. Do you have any other proposed language changes for the parallel generation buy back service tariff sheets?

A. Yes, for tariff sheet No. E57, Schedule Pg-3, we propose wording changes for Nos. 4 and 5 to update internal tariff book schedule references and to add a provision for adherence to Wis. Admin. Code Ch. PSC 119.

III. CUSTOMER BUY BACK PROGRAM SERVICE TARIFF

Q. Does NSPW plan to modify or cancel any other buy back service tariffs?

A. Yes. NSPW plans to cancel its Customer Buy Back Program Service Tariff, Schedule CBP-1 through CBP-1.3 (Sheet Nos. E 30 – E 33) of the Company's current rate book.

Q. Please describe the Customer Buy Back Program Service Tariff.

A. In May 2000, the PSCW authorized NSPW to create the Customer Buy Back Program Service Tariff. This tariff provided NSPW with another tool to manage its system requirements during exceptionally high demand days or other emergency periods. During these periods, customers have the opportunity to reduce load in exchange for a credit for the energy that would no longer be used by the customer. The price would be based on the cost of energy in the wholesale energy supply market, i.e., the MISO Market.

Q. Why is the Company proposing to cancel this tariff?

A. During the eleven years of its existence, the Buy Back Period for this tariff has been declared only once in NSPW's Wisconsin service territory, and no customer opted to participate in the tariff. In addition, similar tariffs of similar duration were developed in several other Xcel Energy service territories with infrequent use and negligible customer participation. The main reason for the lack of participation and use of the tariff by the customers apparently focused on the relatively low price the Company was willing to accept from customers for the avoided use of energy. One can surmise from the lack of customer participation that the price of energy on the wholesale energy market was not high enough to balance the lost revenue a potentially participating customer might garner by continuing its production. As a result, the Company's acceptance price was not a

sufficient incentive for a customer to shed load. Based on the lack of use and the non-participation by our customers, NSPW believes it is reasonable to cancel this tariff.

IV. MODIFIED ADVANCED RENEWABLE TARIFF

Q. Does NSPW plan to modify any other buy back service tariffs?

A. Yes. NSPW plans to modify its existing 'Experimental Advanced Renewable Energy Purchase Service Tariff' ("ART").

Q. What are the bases for the modifications to the ART?

A. The proposed modifications to the existing ART are based on input from NSPW customers, members of the Wisconsin Distributed Resources Collaborative ("WIDRC"), Wisconsin Focus on Energy ("WFOE") staff, and XES staff. In addition, these modifications will bring the ART more in line with recommendations resulting from the Commission's own motion regarding advanced renewable tariff development in Docket No. 5-EI-148 ("ART Docket").

Q. Please explain the modifications to the existing ART.

A. The modified ART will expand eligible technologies from three to four, and will introduce the tiered pricing concept to better match production costs with the appropriate size class. The modified ART will reduce the levels of uncertainty and potential confusion around what technologies qualify for the tariff and what is the ultimate total subscription cap.

The Company has added community-based ("Community-Based") and solar ("Solar") components to the existing ART. The Community-Based component will have a five MW subscription cap, but will not have a smaller, project specific limit. Only wind and anaerobic digestion technologies will qualify for the Community-Based component as

explained below. The Solar component will have a subscription cap of 300 kW and an individual customer limit of 10 kW or less

For the existing wind category, the modified tariff will contain three pricing tiers. One is available for Community-Based projects while a second is available to all customer owned generation facilities greater than 100 kW but less than or equal to 2 MW. These two tiers will allow customers to utilize some of the large, more efficient generating equipment and thus will have a lower purchase price. At the same time, more appropriate pricing is proposed for those facilities that are 100 kW or less.

The biomass/biogas category will also have three tiers. The first tier may only be used for Community-Based projects, while the second tier will be for facilities greater than 800 kW but less than or equal to 2 MW. These two tiers will allow customers that want to install larger equipment an opportunity to participate in the modified ART. A higher price will be paid for generation from those facilities that are 800 kW or less, which the Company believes satisfies the needs of most of our interested customers.

Q. Please explain the key characteristics of the Community-Based category.

A. The Community-Based category will capitalize on the design of similar programs in other states while minimizing the potential for cross-subsidization between customer classes. In addition, the category is designed to provide communities or joint ventures in NSPW's service territory interested in renewable energy an opportunity to install small renewable facilities. Community-Based projects will have a categorical capacity limit of 5 MW, but there will be no customer-facility specific capacity size limit. Only wind and anaerobic digestion technologies qualify for use in this category and the buy back rates will be $0.07 per kWh for wind and $0.08 per kWh for anaerobic digestion. The 5 MW capacity

threshold or tier for the wind and anaerobic digestion technologies can be used only in the Community-Based category.

Q. Please provide additional information on the Solar category.

A. The Solar category will have a technology-specific capacity subscription cap of 300 kW with a per customer capacity size limit of 10 kW or less. These thresholds are based on the size of solar programs proposed by other Wisconsin investor-owned utilities and on the recommendation of professional staff at the WFOE.

Other elements of the Solar Category include a proposed Company-sponsored capital incentive of $1.50 per watt of installed capacity (for a maximum of $15,000 per customer) and a proposed buy-back rate for all electricity generated at a qualifying solar facility of $0.11 per kWh. The Company-sponsored capital incentive can be matched with grants from WFOE and tax rebates offered by the Federal government.

Q. Please explain why additional tiers were added to the existing wind and anaerobic digestion categories.

A. Two additional tiers were added to the existing Wind category due in large part to comments received from customers, information contained in the PSCW staff's briefing memorandum in the ART Docket, and a desire by some of the local units of government in our service territory to develop Community-Based projects. The comments received from our customers and the local units of government focused on two issues, the relatively low buy back rate and the technology size limit. By creating two additional tiers, NSPW is better able to match the buy back rate with the cost of production for all size classes while minimizing the potential for cross subsidization for the larger facilities.

In addition, the capacity limits for each tier should help maximize the number of customer participants.

Similarly, two tiers were added to the anaerobic digestion technology due to customer comments, information derived from the ART Docket, and a desire for some of our large commercial customers to develop joint projects. The two additional tiers will allow NSPW to provide a higher buy back rate for the small to medium sized farms, dairies or food processing facilities typically located in the Company's service territory while providing a lower buy back rate to those dairies or food processing firms that may be larger or choose to expand.

It is important to note that the 5 MW capacity threshold or tier for the wind and anaerobic digestion technologies can be used only in the Community-Based category.

Q. Why did NSPW eliminate the 'other renewables' category found in the original ART?

A. During the four years of the current ART's existence, NSPW received very few inquiries into the use of the 'other renewables' category. In fact, only one project has proceeded to the point of negotiating a buy back rate for the technology. The negotiating process for this specific technology and this specific project has been very time consuming and expensive for the Company and the customer. As a result, NSPW has chosen to standardize the technologies that can qualify for the ART to minimize administrative costs. In addition, the Company has the option to expand the qualifying technologies for the ART in the future based on customer interest or technological developments.

Q. Why is NSPW proposing to establish a firm, total ART subscription cap?

A. In the current ART, the total ART subscription cap was set at 0.25% of the previous year's annual retail sales in NSPW's Wisconsin service territory. This resulted in a varying subscription cap, that caused some confusion regarding how many or what size of facilities could subscribe to the ART as the cap was filled. For example, as a result of the economic recession, and reduced energy sales, the ART could have been over-subscribed if the cap was reached. By establishing a firm cap of 0.25% of 2009 Wisconsin jurisdiction retail sales, the confusion over a variable cap is eliminated and the technical concerns of over-subscription should not arise. In addition, if the subscription limits are reached quickly and the potential impacts on other retail customers are small, the cap can be increased during the next rate case or upon special request by the Company.

Q. Please explain any other key characteristics of the modified ART.

A. The modified ART will continue to have a 10-year firm contract. Upon expiration of the ten-year contract the customer can choose to use the traditional parallel generation buy back tariff or negotiate a power purchase agreement with the Company. No escalation factor will be included in the buy back rates, i.e., all rates will be fixed for the life of the contract. The program is designed to maximize opportunities for customer-owned distributed generation ("DG"). Thus, no third party developers or lease arrangements will qualify for subscription to the modified ART. Allowing the benefit of the modified ART to accrue to third party developers or lease holders will not help achieve the goals of the modified ART. In addition, all customers that subscribe to the ART must adhere to the interconnection rules and guidelines set out in Wis. Admin. Code Ch. PSC 119.

Q. Will the purpose of the current ART change with the approval of the modified ART?

A. No. The primary purpose of the modified ART will continue to be the support and development of the renewable-based DG market. NSPW continues to believe the best way to achieve this purpose is to remove some of the barriers that currently exist for small, customer-sited DG. Small DG facilities continue to find it difficult to sell power to an electric provider through the competitive solicitation process. The prices accepted through that process are generally aimed at larger generation projects that have greater economies of scale, lower production costs, and greater access to capital markets. In addition, it is difficult for many developers of small DG facilities to obtain the necessary financing for their projects if the projects are only eligible for NEB tariffs or parallel generation buy-back tariffs. NSPW believes small, renewable based DG projects can be more viable if a few financial and economic barriers are removed. The monetary benefits that accrue to the owners of a few DG facilities as a result of removing these financial and economic barriers must be balanced with the potential impact on the remaining NSPW customers, however. The modified ART, with the capacity and subscription limits, will help reduce or remove these barriers while protecting against cross-subsidization by other customers.

Q. How will the modified ART help remove the barriers that exist for small customer-sited renewable generators?

A. We are proposing to price renewable generation (wind, biomass, solar, and Community-Based projects) based on or near the cost of production. The use of multiple tiers in the wind and anaerobic digestion technologies will allow the Company to better match the

cost of production with the size of the facility, rather than having a larger, more efficient facility set the price for the smaller generating units. In addition, this pricing mechanism provides small DG investors the stability and certainty needed to obtain financing for their projects.

Q. Please describe the calculation used to determine the proposed pricing.

A. The pricing methodology used to establish the new buy back rates in the modified ART relied heavily on production cost estimates provided by professionals within WFOE and WIDRC. These production costs were affirmed or fine-tuned based on costs estimates experienced in other Xcel Energy service territories. Exhibit 1.15 (DDD-2) is a table showing the modified pricing.

Q. Are there any other key assumptions used to justify the modified ART?

A. Yes. The Company continues to assume the PSCW will approve full rate recovery for all expenses incurred by the Company in the administration of the modified ART and for the cost of the energy NSPW purchases through the ART. NSPW will work with PSCW staff to develop a mechanism that will assure full recovery of all related costs, e.g., use of the escrow accounting mechanism. Furthermore, in exchange for the premium pricing for the renewable energy purchased through the modified ART, NSPW will take ownership of all environmental and renewable attributes associated with the energy purchased under the modified ART.

Q. Will NSPW be able to apply the energy purchased under the ART toward the Wisconsin RPS?

A. Yes. All energy NSPW purchases under this program will "count" against the RPS standard. In addition, the energy or renewable credits generated from the qualifying wind

DG facilities could be used to meet the supply requirements of Windsource®, NSPW's voluntary green pricing program.

Q. Does this complete your direct testimony?

A. Yes it does.